

Cotton Outlook

Special Feature

July 2009



World Long Staple Market

Is There Light at the End of the Tunnel?

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Is There Light at the End of the Tunnel?

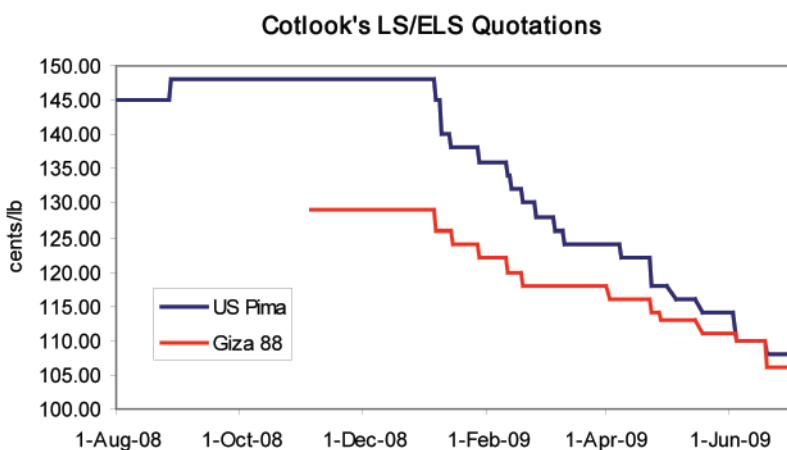
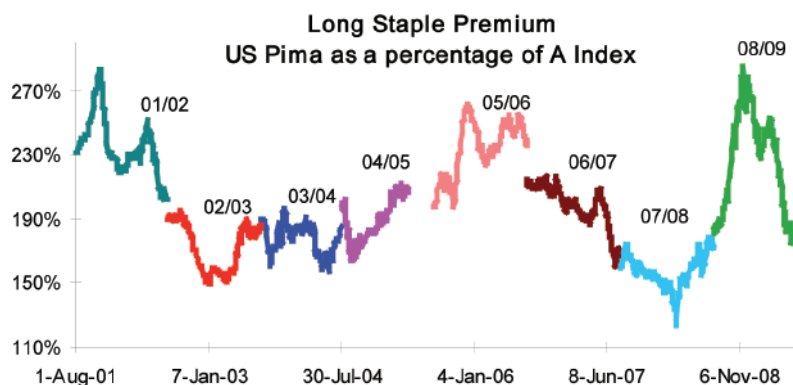


By Matt Robinson, Director,
Cotton Outlook.

The 2008/09 marketing year has of course been difficult for the whole of the raw cotton industry. However, the long staple/extra-long staple (LS/ELS) sector has been hit harder than most. A diversion of land into food and oil crops as well as severe water shortages in the US San Joaquin Valley and parts of Central Asia were influential in the drop in global production of LS/ELS varieties of no less than 44 percent to 434,608 tonnes, the smallest in modern times. The prospect of a much-reduced supply influenced prices for LS/ELS cottons to rise sharply towards the end of 2007/08 and the early part of 2008/09. Cotlook's US Pima quotation stood at 145.00 cents per lb, CFR Far Eastern ports, on August 1 and rose to a peak a month later of 148.00 cents (a level not seen since 1995/96).

Such an elevated price was widely considered unsustainable, especially in view of the premium over upland values, which reached as much as 285 percent in November, the highest in modern times. The story since then has been one of a steady erosion of prices during the remainder of the season.

The main factor undermining prices has of course been the paucity of demand. According to our estimates, global consumption of LS/ELS varieties fell by no less than 37 percent in 2008/09, to 446,062 tonnes. The reasons for that downturn are widely discussed elsewhere in this publication,



but the primary factor appears to have been the global economic crisis and its impact on consumer spending patterns. The question of price, while of course influential, may have been a secondary consideration, with traders often suggesting that even heavily discounted offers were attracting scant attention from buyers. A feature of the marketing year has been re-sales of old crop cotton back onto the market from mills (particularly in Pakistan, where they were carrying not insubstantial inventories) that found it more profitable, even at prices well below current crop levels, to liquidate stocks rather than spin them into yarn.

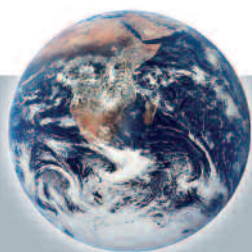
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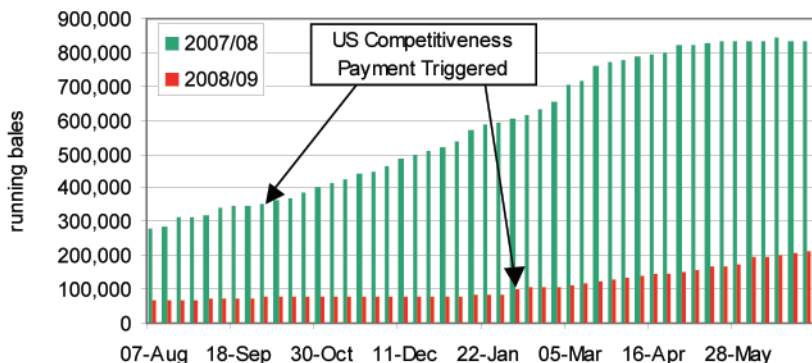


Export sales of 2008/09 crop from the US and Egypt have progressed very slowly during the course of the season. By July 2, US Pima commitments stood at 213,188 running bales, compared with 830,452 at the same stage in 2007/08. Nonetheless, a slight upturn in offtake has been discernible during the latter stages of the marketing year.

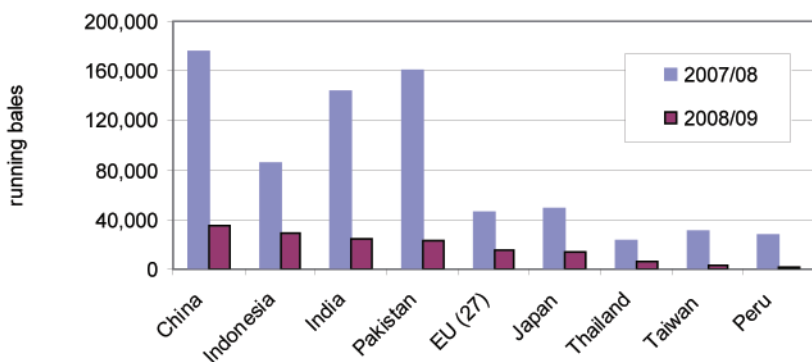
As the accompanying chart demonstrates, offtake of US Pima in all the major markets has shrunk considerably. However, it is noteworthy that those to Indonesia have fallen less than most and the country surpassed Pakistan and India to become the second largest export market for Pima.

Egyptian export sales registrations had risen to only 21,091 tonnes by July 4, compared with 134,630 tonnes a year earlier. According to figures published by the Cotton Arbitration and Testing General Organisation (CATGO), almost half the available supply of Giza 88 for 2008/09 (beginning stocks plus production), or 16,080 tonnes, remained uncommitted by June 28, whereas approaching two thirds, or 52,629 tonnes, of the Giza 86 supply was still available by the same date [editor's note: Cotlook's forecasts point to a smaller total beginning stock for the season than the CATGO figures].

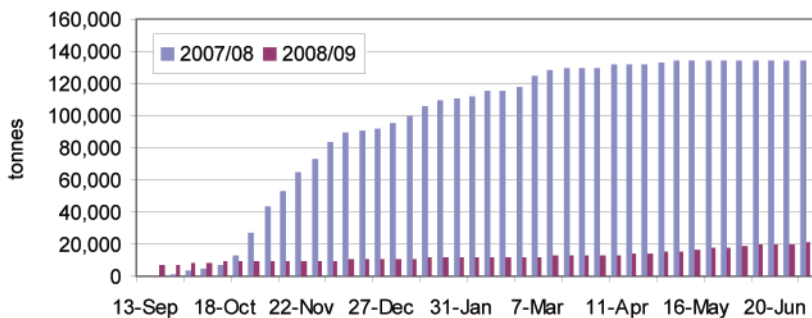
Pima Export Comparison



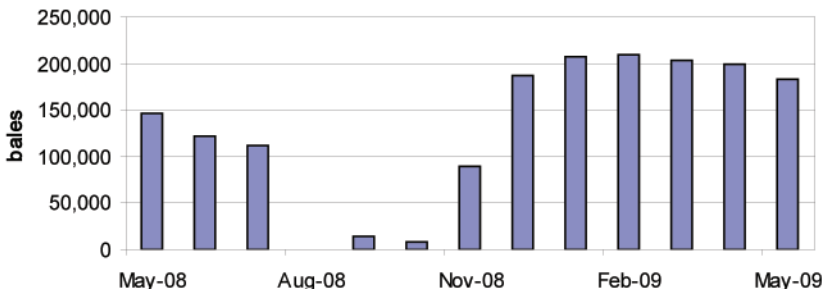
Major Pima Export Markets



Egyptian Weekly Export Sales Registrations



Outstanding CCC Loan Balances of US Pima



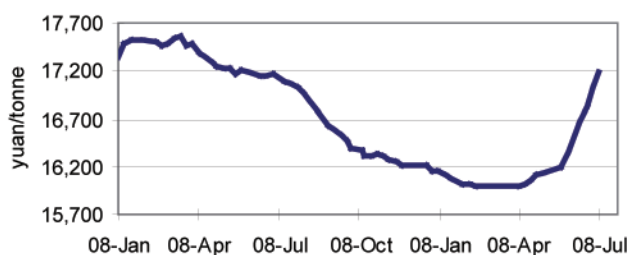
Sluggish sales prompted the Egyptian trade to call for government assistance and in January it was announced that a subsidy would be made available on sales to domestic mills of E£150 per cantar (around 25 cents per lb). However, by the time of writing, the subsidy had yet to be distributed, though the Ministry of Finance confirmed that a payment would be forthcoming and backdated (subject to an overall budget of E\$225 million). Although calls have also been forthcoming for an export subsidy, current indications are that such a measure has been ruled out.

US shippers (and domestic mills) have again benefited from a Pima Competitiveness Payment, but the subsidy was triggered much later this season, on January 30, compared with early October during the previous marketing year. The initial payment was 18.23 cents per lb, much larger than the peak in 2007/08 of just over 12 cents. However, the weekly payment has fallen steadily throughout the remainder of this season and currently stands at just over six cents.

The slow progress of marketing prompted an inflow of cotton into the Commodity Credit Corporation loan. By May 31, 2009, the outstanding balance of Pima in the loan stood at 183,612 bales (against 146,475 a year earlier), representing a fair proportion of prospective carryover. That cotton may, nevertheless, remain out of the usual marketing channels well into 2009/10.

Despite a large carryover in 2008/09 (close to 100,000 tonnes), Chinese long staple varieties have not found their way onto export markets in any significant volume. Nonetheless, it would appear that sharply lower prices and a shortage of higher grades in general have encouraged domestic offtake and significant inroads have been made into those stocks.

Chinese Type 137 prices



Our global production and consumption estimates suggest a modest shortfall in supply in 2008/09, despite the collapse in demand, and therefore a small drawdown in the significant inventory carried into this season. The inference is therefore that the reduction of stocks in China, and the liquidation of old crop stocks carried by mills in Pakistan and India have been sufficient to offset rises in Egypt and the US.

That being said, it is clear that stocks of LS/ELS cottons carried into the 2009/10 season will still be significant (particularly in the major exporting countries), but also that they may provide a much-needed boost to the supply side of the global balance sheet, with our estimates suggesting that production will fall from its already record low level, by three percent, to 423,729 tonnes. This represents a shortfall of close to 83,000 tonnes from our world consumption estimate for next season of 506,582 tonnes.



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US Supply and Demand tonnes

USDA estimates (July 10)

Carryover August 1, 2008	30,264
2008/09 Production	93,839
Imports	435
Total Supply	124,538
Domestic Consumption	6,532
Exports	38,102
Total Disappearance	44,634
Unaccounted stocks	-2,177
Carryover August 1, 2009	77,728
2009/10 Production	81,429
Imports	435
Total Supply	159,592
Domestic Consumption	6,532
Exports	108,862
Total Disappearance	115,394
Carryover August 1, 2010	44,198

Egyptian Supply & Demand tonnes

Carryover September 1, 2008	21,585
2008/09 Production	107,000
Imports*	130,000
Total Supply	258,585
Domestic Consumption	170,000
Exports	30,000
Total Disappearance	200,000
Carryover September 1, 2009	58,585
2009/10 Production	100,000
Imports*	130,000
Total Supply	288,585
Domestic Consumption	200,000
Exports	40,000
Total Disappearance	240,000
Carryover September 1, 2010	48,585
* Upland cotton	

Cotlook foresees a further curtailment of output at the major origins, with the notable exception of China. The USDA's June 30 plantings figure indicated that the area devoted to Pima would fall by a further 14 percent, to 149,400 acres, from which an output of 374,000 bales (480 lbs) is foreseen, down 13 percent from 2008/09. In Egypt, CATGO places the area sown by June 27 at 287,961 feddans (virtually acres), a figure that should prove close to the final level, and which is eight percent lower than the area sown in the previous campaign. Significantly, considering the recent stronger demand for the ELS Giza 88 variety, and small carryover stock of that cotton, reports indicate that plantings of Giza 88 have fallen well short of target. A breakdown of final plantings is still awaited, but Cotlook's estimate suggests lint outturn will fall from 107,000 tonnes in 2008/09 to 100,000 tonnes.

World Extra-Long and Long Staple Output tonnes

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10 v 2008/09
United States	84,717	152,943	147,683	94,122	162,335	137,275	167,000	185,458	93,839	81,429	-13%
Egypt of which:	210,050	316,600	289,750	200,300	295,150	204,300	214,733	226,450	107,000	100,000	-7%
ELS	30,973	51,262	65,812	58,386	77,555	42,881	52,906	40,740	17,000	10,000	-41%
LS	176,751	261,909	220,535	138,562	212,557	155,930	157,865	188,000	90,000	90,000	0%
Sudan	21,000	30,000	54,000	48,000	50,000	44,000	21,400	15,000	8,969	9,000	0%
Uzbekistan	11,200	17,000	16,500	17,000	14,000	10,000	12,000	10,500	5,000	5,000	0%
Tajikistan	10,000	18,000	33,000	17,000	13,500	8,000	10,000	7,500	3,000	1,000	-67%
Turkmenistan	20,000	30,000	24,000	27,300	22,900	12,000	25,000	25,000	20,000	12,000	-40%
India	85,000	80,000	60,000	70,000	69,700	51,850	68,850	78,000	76,500	74,000 *	-3%
Peru	12,537	6,000	3,600	4,048	8,000	9,211	14,000	15,000	12,000	12,000	0%
China	61,600	97,100	70,000	113,500	86,500	80,000	170,000	185,400	96,000	117,000	22%
Israel	8,000	19,000	16,500	7,300	14,000	11,500	18,500	19,000	9,000	10,000 **	11%
Australia	3,300	7,945	1,362	114	392	300	300	300	300	300	0%
Others	4,000	3,000	4,000	4,000	4,000	3,000	3,000	3,000	3,000	2,000	-33%
TOTAL	531,404	777,588	720,395	602,684	740,477	571,436	724,783	770,608	434,608	423,729	-3%

*includes cotton with staple of over 33mm

**includes Pima and Acala

Enthusiasm for barbadense varieties has continued to wane in Central Asia, particularly as quicker maturing varieties were preferred on land that required replanting following a wet spring. A slightly smaller drop in output is anticipated in India, while Barakat production in Sudan is expected to remain of the minute proportions witnessed in recent seasons. While we predict that LS/ELS consumption will continue to fall in Europe and remain flat in the Americas, we foresee a recovery in many parts of Asia, with the notable exception of China, where local estimates point to offtake remaining at the lower levels witnessed in 2008/09.

The recent upturn in offtake of US Pima and, to a lesser extent, Egyptian varieties perhaps suggests there is some recognition in mill circles of the prospects of a tightening supply situation next season. Moreover, as many of our contributors indicate elsewhere in the publication, the likelihood is that demand for textiles and clothing incorporating LS/ELS cottons will begin to improve sooner, rather than later, particularly if global economic activity brightens during the 2009/10 marketing year.

There is good reason to be cautious about the outlook for the LS/ELS market, with many long-term challenges facing the industry, not least the scope for any substantive recovery in output in the seasons ahead. Water issues and competition for land are likely to weigh heavily on production prospects for some time to come. Nonetheless, if, as forecasts suggest, stocks begin to tighten and a recovery in retail offtake of high-end textiles and clothing injects some momentum into mill demand, there might be scope for the downward trend in prices to be reversed in the months ahead and for the market to take on a much healthier sheen.

World Long and Extra-Long Staple Consumption tonnes

	2008/09	2009/10	09/10 v 08/09
Americas			
United States	6,532	6,532	Unch
Mexico	300	300	Unch
Peru	9,000	9,000	Unch
Europe			
Italy	2,500	2,000	-20%
Switzerland	4,000	3,000	-25%
Germany	3,000	2,500	-17%
Turkey	5,000	4,000	-20%
Portugal	4,000	4,500	13%
Czech Rep	150	150	Unch
Slovak Rep	500	500	Unch
Spain	400	300	-25%
Asia			
China	150,000	150,000	Unch
India	140,000	145,000	4%
Pakistan	30,000	50,000	67%
Indonesia	10,000	12,000	20%
Japan	8,000	10,000	25%
South Korea	4,980	4,600	-8%
Bangladesh	10,000	12,000	20%
Thailand	9,000	9,000	Unch
Taiwan	2,500	5,000	100%
Turkmenistan	2,500	2,500	Unch
Hong Kong	200	200	Unch
Africa			
Egypt	40,000	70,000	75%
Others	3,500	3,500	Unch
Total	446,062	506,582	14%

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'Green Shoots' of Recovery in US Pima Demand



By Matt Laughlin, Cotton Marketing Manager,
J.G. Boswell Co.

ELS Cotton Sales Swing from High to Low

As successful a marketing season as 2007/08 turned out to be for extra-long staple (ELS) cotton, the follow-up season has been a disaster as global exports plunged from 400,000 metric tonnes to a decades-low of just 128,000.

ELS cotton growers lost money and fine count spinners struggled to offset rising costs against vanishing orders. It has been a season to forget.

But all is not lost, as we enter the third quarter of the calendar year with increased American Pima sales, stabilizing fine count yarn prices and a US consumer base that is slowly emerging from a self-imposed spending hibernation.

More Pima cotton sold in the five weeks from early-May to mid-June than the previous 15 weeks combined. Pima sales stood at 48,000 tonnes on June 18.

World Recession Slams Luxury Apparel & Textiles

The fragile state of the world's economy became apparent a year ago when a dramatic increase in commodity prices, particularly energy, caused a meltdown in the robust US housing market. Rising energy prices and corresponding rises in interest rates

exposed the tenuous and risky nature of the home mortgage business over the past decade.

The collapse of the US home building industry triggered an almost immediate drawback in the important home textiles portion of our industry. Retailers selling sheets and towels began delaying shipments of ordered goods and cancelled orders for goods not yet produced. Inventory levels began to grow at a time when demand continued to weaken. As happened in the housing industry, added manufacturing capacity during the good times led to a quickly unsustainable over-capacity situation during the downturn.

The apparel retail market was beginning to get squeezed also but didn't realize the full impact of our economy lock-up until the credit crunch in the fall of 2008. While retailers tried to reduce inventories in an orderly way during the summer months, they panicked during the months leading into and through the holidays. Orders were cancelled, containers were left fully loaded in ports, and heavy discounts were given at the cash register as cash flow took precedence over profits. Coinciding with these events was the announcement of several large retail bankruptcies, including Mervyn's and Linens 'N Things.

Even if the relationship between a business and its bank was intact, and that business' customer had a good relationship with its bank, the banks no longer trusted one another and the normal course of transactions stopped. Then you can factor in the consumers' complete lack of confidence in the economy as US employers began shedding jobs at a rate of more than 500,000 per month. Suddenly you had a perfect storm aligned against all high-priced, luxury goods.

Alas, global ELS cotton shipments slowed to a crawl, as mills were no longer receiving orders from high-end apparel and home textile manufacturers or retailers. Although US upland cotton exports have matched last season's strong level, US Pima cotton exports have tanked. Just 32,000 tonnes of Pima had been shipped by June 11, compared to 186,000 tonnes by the same stage last season, an 83 percent reduction.

US Pima Crop Year	Oct. to Sept	Oct. to May
	Shipments in bales	
2004/05	767,300	742,800
2005/06	638,100	529,900
2006/07	724,600	577,300
2007/08	709,700	646,400
2008/09	145,000 *	110,500

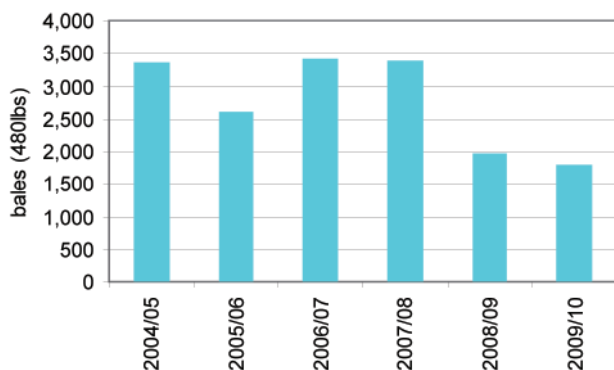
*Projected

Demand for luxury goods fell significantly last summer, just as mills had ratcheted up purchases of ELS cotton in expectation of a sustained boom in the fine count yarn market. Consequently, many mills were left with large inventories of Pima and Egyptian cotton that has taken as much as 12 months to consume. We are now seeing a number of those mills finally come back to the market for more ELS cotton, but only for quantities equal to their orders. No-one wants to carry inventory.

The squeeze has been felt by all ELS cotton suppliers, as Egyptian cotton sales are down more than those of American Pima. Egypt has sold only 10 percent of last season's volume. Consequently, all ELS suppliers have reduced plantings the last two seasons by more than 40 percent combined. Egypt's acreage will be slightly lower this season and well below its 10-year average. Its cotton production last season came from its lowest planted acreage in 100 years. Both China and the US cut their ELS cotton production in half in 2008 and have reduced acreage even further this year.

Eventually we will see ELS cotton supply back in balance with demand, but it may be the first quarter next year before we get there. But we will get there.

Global ELS Production



Source: ICAC

Slow Recovery Expected in ELS Cotton Market

Pima producers, especially those in California, from which more than 90 percent of production comes, have gradually moved cotton acres into other more profitable crops, including vegetables and trees. Cotton production costs reached \$1,500 per acre in 2008/09, making Pima unprofitable (averaging 1,300 pounds/acre) at prices below \$1.20 to the farm. Grower prices this season have fallen from more than \$1.30 last summer to less than \$1.00 by June 2009. Moreover, with water availability becoming even tighter in

California, continued Pima acreage reductions are expected under the current market conditions.

Sales of US Pima cotton have increased as we close out the second quarter of the year, but recent activity is attributed equally to attractive low prices as it is to actual increased demand. However, we are fast approaching the floor for prices as they near net loan levels to the grower.

In addition, demand should continue to gradually improve as mills and retailers run down existing inventories.

There has also been a small but steady increase in home fashion orders, particularly sheeting manufacturing. This sector was the first to see trouble in the housing market

and quickly reduced orders. Therefore, it will be the first to return to the market. Again, volume is not great, but it is steady.

Some of this new business is going to our traditional markets such as Korea, Japan and Hong Kong. These are markets that don't have a domestic supply

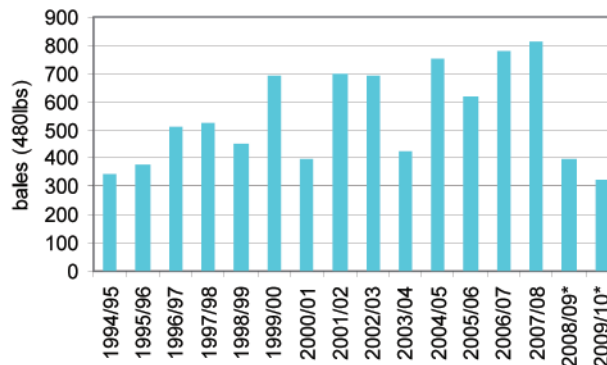
of cotton. The volume is not large relative to recent years, but this season any volume is significant.

Also encouraging is the return to the market of the big three: India, Pakistan and China. Although low prices are definitely providing motivation, it is apparent that mills in these countries are beginning to feel the worst may be behind them.

Suffice to say that everyone in the supply chain has made adjustments this season in an effort to survive a market downturn, the likes of which no one has seen before. Growers have moved to other crops, merchants have downsized and expanded their offerings, some mills have closed and others have downsized, retailers have downsized and cut prices, and consumers have gone into hiding.

The painful result is that those left standing amidst the carnage will find themselves in a relatively strong position as markets stabilize and consumer spending resumes. As long as the US Pima producer can make a profit, he too will uphold his role in the process.

American Pima Production



* Bosw ell's estimates

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The Changing Face of Egyptian Cotton



By Tharwat El Miniawy, Chairman,
Cotton Arbitration and Testing General Organisation (CATGO).

Egypt is renowned globally for its Extra Long Staple cotton, with its superior quality and technological characteristics that make it a strong competitor on international markets. However, the local industry is currently facing many internal problems, including:

- market forces (supply and demand) that have led to wide price fluctuations,
- high prices for production inputs (fertilizers, pesticides, harvesting costs and others),
- competition from other crops, which has negatively affected the acreage under cotton and reduced the crop.

In addition, there are challenges created by external forces, including:

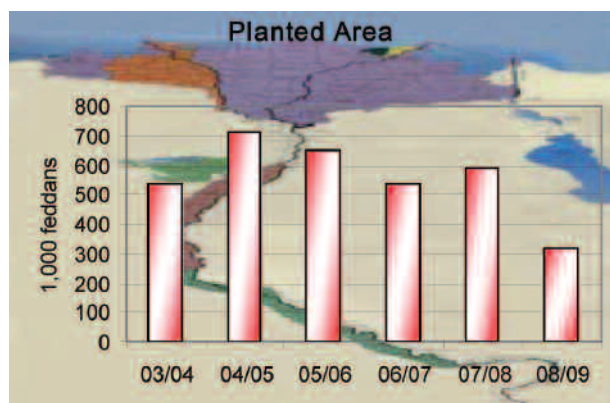
- subsidy programmes in countries that compete with Egypt, which can reach more than 50 percent of the cotton price,
- the access of this kind of cotton to China, India and other markets,
- the global financial crisis, the recession that prevails in markets of real estate, trade, industry and others.

All of these factors may have an impact on current production, marketing and the export policies of Egyptian cotton.

One of the consequences of the global crisis is a decline in demand for Egyptian cotton and Long and Extra Long Staple (LS/ELS) varieties in general. This affects all cotton production activities; the area sown, yields, as well as having a negative effect on trading cotton in the local and global markets.

Pima, allowing it to compete with Egyptian. This has encouraged the expansion of Pima cotton area, as well as demand from mills. The support it gets from the American government reaches millions of dollars, which in turn, affects negatively the free cotton market and leads to a decline in demand for Egyptian.

Local spinning mills have had access to imported cotton this season, threatening the production of Egyptian cotton. Moreover, influenced by foreign subsidies and the global recession, imported growths have been available at low prices, which made many companies import large quantities, affecting domestic demand for Egyptian cotton negatively, due to price differences.

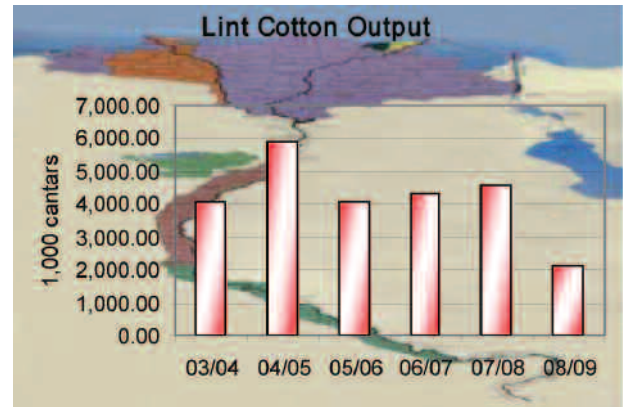
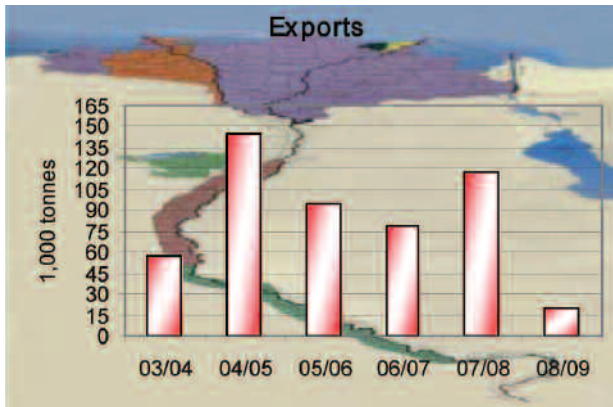


Cultivated area reached 316,234 feddans (1 feddan=4200 m²) in 2008/2009 which accounts only for 65.84 percent of the target area and represents a decline of 46.12 percent from the previous season.

Egyptian cotton has been exposed to unfair competition especially from the US, where both exporters and producers receive subsidies from their government.

The United States has a programme to subsidize producers and exporters of

Declining demand among traders on the domestic market for seed cotton, could affect significantly the profitability of growers, and undermine cultivated area. So Egyptian cotton is now in need of the efforts of all cotton sectors.



The accumulated commitments for season 2008/2009 till June 13, 2009 (the 33rd week) are 19,671.50 tons compared with 134,067.78 tons during the same period last season.

ELS commitments reached 12,254.50 tons accounting for 62.30 percent of the total commitments, while LS commitments reached 71,66.50, accounting for 36.43 percent of the total. In addition, 250.50 tonnes of Exporters' Types have been sold, accounting for 1.27 percent of the total.

Giza 88 ranked first among the exported varieties with 57.14 percent of the total, followed by Giza 86 with 36.30 percent.

Lint cotton production reached 2.134 million Kantars in 2008/2009 down by 53.10 percent from last season. The Giza 86 variety ranked first, with production reaching 1,316,206.45 Kantars of lint, accounting for 61.96 percent of total production, followed by Giza 88, of which 457,943.940 Kantars of lint were produced, accounting for 21.49 percent of the total.

Cotton affords the best national returns, as cultivating one feddan gives at least 400 kilos of cotton and the equivalent of 120 to 150 kilos oil, as well as at least half a tonne of cattle feed cake, as well as other by-products. Moreover, it is a labour intensive crop, which has social implications through the employment rate in the different stages of its cultivation, marketing, ginning and manufacturing (spinning, food industries and others).

State intervention, alongside the efforts of different organizations, is a must to protect our national crop, by applying the following procedures:

1. Support the role of the Cotton Research Institute:

Develop new varieties with high quality specifications, yields and ginning output, as well improve the current commercial strains and prevent their deterioration.

As well as the need to produce improved specifications of length, strength and fineness to meet the requirements of global markets and some local spinning mills, and therefore compete effectively with cotton produced in the United States, China, India and other countries, there is an urgent need to improve cotton production practices to increase yield and reduce production costs. This would eventually lead to higher income for cotton producers.

Cotton is passing through a difficult period in the world market, but this period will come to an end and cotton will regain its position in local and global markets.

2. Preserve Egyptian cotton from contamination:

A recently published report by the ITMF (International Textile Manufacturers Federation), praised low contamination rates in Egyptian cotton because of the efforts done by those responsible, including the Up-country Cotton Trade Committee, the Egyptian Cotton Trade Companies and ALCOTEXA (Alexandria Cotton Exporter's Association). This is in addition to CATGO's (Cotton Arbitration and Testing General Organisation) role, through its technical monitoring of cotton and preservation of varieties from mixing, deterioration and contamination during the handling stages. Also, the supervision, control and follow-up of the technical handling stages and monitoring of lint cotton during ginning. This includes assuring seed cotton is pressed into homogeneous lots so that it meets the physical and technological requirements of local and foreign spinners. CATGO also draws samples of

lint cotton from all lots to be tested by H.V.I. at CATGO's laboratories and issues approved certificates of quality, as well as arbitrating on lint cotton in Mint EL Basal Exchange, measuring the moisture regain and issuing internationally recognised certificates.

All certificates issued by CATGO are fully computerized, apart from certificates issued for arbitration and classing of variety and grade.

There are some suggestions that local spinners need lower quality at a lower price and that there is a need therefore to cultivate upland cotton. With its high productivity, it should cover production costs and achieve a high income for the producer. Others prefer to give Egyptian cotton due care and apply ideal methods for achieving the highest yields, especially in Upper Egypt.

Therefore, we believe that a strategic policy for Egyptian cotton should be developed with the aim of offering stability to all sectors (production, trade, export and manufacturing) and the establishment of a fund to protect participants from damaging fluctuations in price.



Outlook for China's Long Staple Market in 2009/10



By Liang Wenying, Chairwoman,
Xinjiang Yinlong International Co., Ltd.

In China, long staple (LS) cotton is mainly sown in the Akesu area of southern Xinjiang, while smaller-scale plantings are also seen in Kashi (in the west of the region) and Turpan (in the north). The major LS cotton produced in China is Type 137, which has an average staple length of 33-39mm, strength of 33-43 grams/tex and Micronaire readings of 3.7-4.2. The colour is mainly pure white or milky white. Currently, the main seed variety used is the upgraded 'Xinhai No.21', which characteristically gives high yields and stable output, is of high quality and adaptability, and is easy to harvest.

During the past couple of years, plantings of LS cotton have been highest in Awati county, which is located in the Akesu region. According to soil research in 2007, seed cotton yields of upland growths in that county reached 400 kg per mu (or 6,000 kg per hectare) and those for LS reached 330 kg per mu (or 4,950 kg per hectare). The average planting cost is 1,200 yuan per mu (or 18,000 yuan per hectare). The drip-irrigated area in Awati has reached 200,000 mu and that could expand by as many as 60,000 mu each year in the future.

China's LS is mainly used for domestic consumption rather than export. During 2006/07 and 2007/08, domestic LS output broke all records and created an ample supply. The price

of Type 137 in October 2007, as the new crop came to market, slid to 17,000 yuan per tonne. Farmers' interest and confidence was severely hurt and, as a consequence, the area planted in 2008/09 fell by half. Since the 2007/08 season, there have been no LS plantings in the Kashi region.

Another factor which has influenced planting intentions, is internal strategic adjustments to the operations of the two main administration groups that sow cotton, the Production and Construction Corps (or Military Group) and the Xinjiang autonomous region authority. Their activities are divided as follows: agricultural planting 20 percent, stockbreeding 20 percent, forestation and fruit 40 percent and others 20 percent. Forestation and fruit has developed rapidly, while during the second half of 2008, due to rising inflation and the general financial crisis, exports of textiles (especially medium and high-end products) was severely depressed, undermining demand for cotton. In October 2008, the government announced it would procure the Xinjiang cotton crop into the state reserves and restrict cotton imports, which stabilized the domestic cotton market. Although LS prices have moved lower during the past couple of years, the downturn has not been as profound as that for upland cotton. Prices have remained relatively stable due to an essentially balanced supply and demand picture. In 2008, exports

of LS cotton totalled around 12,000 tonnes, the highest level for five years. The LS export price was maintained at around 100 – 105 US cents per lb, FOB.

Ex-gin prices of LS cottons during the 2008/09 harvest was around 17,000 – 17,500 yuan per tonne for Type 137. At the end of April 2009, all new crop had been shipped out of Xinjiang and was ready for sale. By the end of May, all new crop LS had been sold due to the limited output and restriction on cotton imports. Old crop LS was also basically sold out, with the exception of around 10,000 tonnes stocked in No. 1 Division. Meanwhile, the price difference between international and domestic prices has risen above 2,000 yuan per tonne. Therefore, exports in 2009 are expected to total 5,000 tonnes.

During 2008/09, LS cotton output in the Xinjiang autonomous region authority was around 65,000 tonnes, with lint yields averaging around 84 kgs per mu (or 1,260 kgs per hectare) from an area sown of 731,100 mu (or 48,740 hectares). Production by the PCC totalled 31,000 tonnes, with yields averaging 115 kgs per mu (or 1,725 kgs per hectare). Total LS output in 2008/09 was therefore 96,000 tonnes. In 2009/10, LS plantings are estimated at 1.3 million mu (or 86,666 hectares) and a production of 117,000 tonnes is therefore deemed obtainable. Plant

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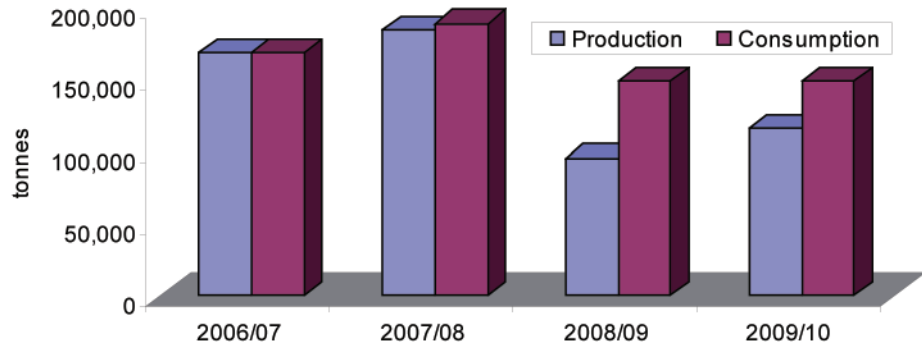
development is falling behind last year and the condition of the crop is worse than at the same point last year, owing to low temperatures and windy weather in Akesu during sowing in April. However, Xinjiang autonomous region and PCC have both increased the area sown under drip irrigation and have strengthened field management. The weather in June was similar to past years, with rainfall lacking, but this may not affect final output significantly.

Currently, mills are still adhering to a hand-to-mouth purchasing strategy and a recovery in demand has not yet

materialised. However, since many of the major global LS producers

(excluding China) have reduced plantings, prices may still rise sooner or later.

China's LS Production and Consumption
Cotlook's estimates



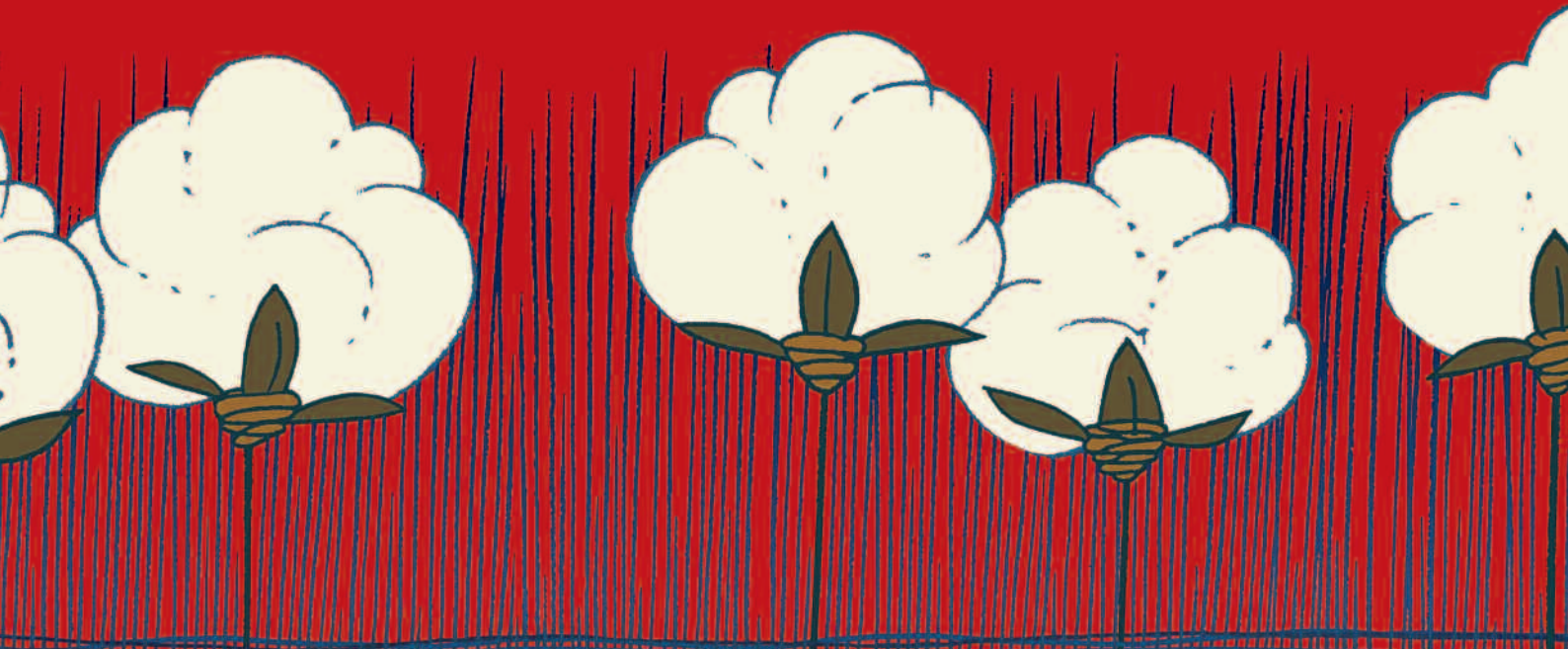
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The Impact of the Financial Crisis on Extra Fine Cotton and Textiles



By Edy Hegetschweiler,
Paul Reinhart A.G.

In order to avoid any misunderstandings let me first put the diction right: by extra-fine cotton I mean ELS cottons and by extra-fine textiles I mean the luxury textiles made from ELS cottons.

In order to be able to analyze closer the market for luxury textiles let me also have a look at what constitutes a definition of a luxury product. Is this is a product which only a few can afford to buy or is it a more affordable product which many consumers strive to have? Amongst other things this depends of course on the total value of the investment, or in other words, of the price for the product. A luxury car such as a Bugatti or a Rolls-Royce obviously has a different price tag attached to it than a fashionable Armani shirt or a Burberry cardigan. These examples show us that luxury in terms of money invested has a very broad definition.

Is it therefore justified to think that as a consequence of today's financial crisis all luxury products will be suffering to the same extent? Will demand for luxury goods in bad times not change and become focused on more affordable items? In this regard, luxury textiles should actually fair considerably better than most, such as cars, watches and jewellery – one can show off with a fashionable new piece of clothing, just as well as with a new watch, but it will cost less. However, it seems that nowadays luxury textiles are

not faring any better than other luxury products, in fact, quite the opposite. What may be the reason for this? I think it has to do with the fact that it is not the consumer who knocks down demand, it is the supply flow specialists and the financial wizards inside and outside the textile production chain. It is they who have decided in today's financial crisis that people will buy fewer higher-priced textiles, in the belief that the end-consumer's knee-jerk reaction would be to trade high quality for a cheap price. Consumers may be more intelligent than what many of us think (Aren't we consumers too?) Anyway, what I want to say is that many of us in the industry are behaving like the mouse that is waiting for the cat to come. We only see the dangers and problems in today's financially driven world and are missing out on the opportunities! What a strange way of looking at things and what a pity!

There is of course an alternative. Have you ever seen an advertisement by one of the major retailers or apparel manufacturers telling us that now is the time to spend less money on luxury, and instead of buying something very expensive, why not purchase a new, nice piece of clothing that will also make you feel good. This world is not only one of figures and charts, where the financial wizards are god-like creatures, telling us where the world will go and when it will end. No, consumers will continue to spend

money just to feel happy, consumers will continue to invest money where their feelings are met best, and textiles can very nicely fulfil this desire and carry this message. The consumer is always striving for the product that offers him some positive nutrient for his mental health in difficult times. Only, I am afraid the industry may have forgotten that. And those who have not forgotten it are unfortunately not the ones calling the shots!

Of course, it is quite obvious for all readers that the reason why so far I have been putting my focus on luxury textiles is the immediate link between them and luxury cottons or as we call them extra-fine or ELS cottons. It is also quite obvious that if we have a problem in luxury textiles, we will also have a problem in luxury cottons/ ELS cottons. And yes, demand for such cottons has dropped quite dramatically over the last 12 months or more. And yes, there is no smoke signal yet on the horizon hinting to us that this situation will change quickly. ELS cottons will have to live with the fact that the smallest global outturn ever, since separate figures for ELS cottons have been made available more than 70 years ago, has not and will not make prices soar, because nobody seems to need ELS cottons anymore. It's just as simple as that. Demand has disintegrated and the still available stocks, both at the various origins and at mill level, together with the meagre supply projected to come

out of the 2009/2010 crop, will not keep ELS prices from being under pressure at least until....???? Sorry for this, I do not have that famous crystal-ball on my desk and that is why I do not make any predictions here. We have never had, at least as far as I can remember, a similar situation, so there is no string from the past which will provide us guidance for the future. One thing remains: the game of supply and demand will be back one of these days and perhaps readers would be well advised if they had a look at the naked production estimates for 2009/2010. They are impressively small but today this does not mean a thing. In any case, demand will break through again and sometime in the near future will provide the food for action. But before this happens it may well get worse.

One thing, however, which we will have to watch carefully is that during this process ELS cotton will not be added to the list of extinct species. At first glance this may sound exaggerated, but worldwide ELS cotton acreage is not only being challenged from the demand side; no, it also under severe pressure on the production side. In the USA, it is California's never ending story of ever tightening water supplies for agricultural use. In California nowadays, fish-protection definitely prevails over cotton, ELS cotton in particular. In Egypt, it is competition from other agricultural produce such as rice, wheat, vegetables and fruit trees, which makes survival for ELS difficult. It is the already old story of an industrial product grown on agricultural land and the dilemma arising out of this situation. In Xinjiang, China's ELS growing centre, it is the ever increasing lack of labour willing to handpick the crop which makes the ELS future look somewhat clouded. Add to this the fact that ELS varieties just have been losing ground year after year on per acre net income to the farmer. The main reason for this, amongst others, is the lack of new, higher yielding seed varieties. Except for China and Israel, investment in developing better ELS-seed varieties has been nominal. Who will invest in a marginal industry such as ELS? That is definitely something we have to ask ourselves. Looking at the challenges to ELS output both now and in the years to come, we also have to ask ourselves whether we will need new ELS acreage outside the traditional areas? In the existing major producing areas in California and Egypt, current limitations on ELS acreage will not go away. On the contrary, the acreage may contract further in future. In Central Asia, once a stronghold of

extra fine cottons, a lack of investment has influenced the collapse of production, to the extent where, in my opinion, it will not recover. Does the ELS future therefore solely rely on China? China, where in the last decade new ELS promising seed varieties have been developed.

So, there is a definite need for improved, higher-yielding seed varieties, for alternative growing areas, and definitely for new innovative marketing strategies. Marketing strategies for ELS on a global basis, from California to Egypt, and throughout the entire industry, from producer until retailer. It no longer suffices if every producing region rides its own small train. Financial resources will not grow in future; on the contrary, they will shrink, in accordance with smaller production levels. This means, if we want ELS products to stay decisively on the shelves, to stay in the minds of the consumer, the limited resources available will have to be combined, irrespective of nationality. Fine cottons and textiles in my opinion are in dire need of an effective lobbying campaign, and on a global

level. Those generations still knowing the merits of Egyptian and/or Pima cottons are getting older, and the younger generation is no longer aware of the advantages and the appeal of ELS cottons and ELS-made textiles. The story of ELS has to be told to the consumer so that he/she appreciates what he buys, so that he/she is happy to pay a premium for such an outstanding product. For fine cottons and textiles, the battle-cry should be: united we stand, divided we fall!

Otherwise, ELS cotton acreage will continue to tumble, being replaced by other agricultural products, or partly maybe by longer staple upland cottons. True extra-fine cotton will return to being a real luxury product, only produced for a very selected elite of customers. Do we want this to happen? Do we want to see the real king of cotton, the one and only queen of fine textiles die? Extra-fine cottons and textiles definitely do not merit such a fate. Let us work together for a better ELS world. Let us maintain the sex appeal of luxury textiles and its raw-material base!

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Indian Extra Fine Cotton Scantily Dressed



By I J Dhuria, Corporate General Manager - Raw Materials and Rajesh Singla, Chief Manager, Vardhman Group.

Just as national economies are going up in smoke across the globe, stealthily and alarmingly, the stench of burning is coming from the global ELS market too: yes, ladies and gentlemen, your favourite and beloved ELS sector is in the midst of its own kind of meltdown.

The Global Picture

The danger signs emerged when world ELS cotton production plummeted by as much as 41 percent, to 431,000 tonnes, in 2008/09. Notably, that was the lowest output for three decades, even lower than the 519,000 tonnes recorded way back in 1994. If we look country-wise (major cotton producing countries) at the percentage drop last

season, the sequence in descending order would be the US (49 percent), China (48) and Egypt (47). India is the only major ELS producing country in which output remained stable in 2008/09.

The decline in world ELS production can be attributed to a sharp fall in planted area in the US and Central Asia, on account of severe water shortages, and a diversion of land to competing food crops in Egypt and China.

There is no denying that world ELS consumption also fell in 2008/09, by 23 percent, to 370,000 tonnes, but the decline was not as sharp as that of production. The drop in consumption can be ascribed to the global financial meltdown.

NOT TRIVIA

- Egypt, US, China and India contribute about 85 percent to total world production.
- India and China both account for 75 percent of world ELS consumption.
- Only 376,000 hectares in the world have been sown to ELS cotton, which works out to be hardly 1.25 percent of total area under cotton.

If world ELS market falters, can India be far behind?

In sync with the world scenario and continuing a long established trend, India also faced a shortage of ELS

Clouds on the Horizon: A Report Card for Indian EIS Cotton

'000 Tonnes

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Beginning Stock	26	23	22	37	19	20	23	23
Production	60	70	70	52	69	78	80	72
Imports	67	58	70	60	80	85	55	65
Supply	153	151	162	149	168	183	158	160
Consumption	125	128	135	140	148	160	135	140
Exports								
Disappearance	125	128	135	140	148	160	135	140
End Stock	28	23	27	9	20	23	23	20
Stock to use	0.22	0.18	0.2	0.06	0.14	0.14	0.17	0.14

Source: ICAC Report April 30, 2009



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upwardly-mobile, aspirational, lifestyle-conscious demographic profile, the opportunities for sales of high-end textiles and clothing are likely to increase even more in the decades to come. However, it is therefore a matter of great concern that production of Indian ELS cotton is on the decline and that current varieties have poor properties, with superior and inferior seeds being mixed and trash and foreign matter contamination being high. As per the textile industry's vision statement, demand for ELS cotton may hit 2 million bales (340,000 tonnes) by 2015. If we weave all these together, the outlook seems quite gloomy.

cotton in 2008/09 - local production was 80,000 tonnes, whereas consumption amounted to 135,000 tonnes (almost equalling China, the largest consumer in the world). The inevitable consequence of this was that India again had to import a significant quantity of its requirements from Egypt, US, Sudan and Peru etc. In 2007/08, India imported 85,000 tonnes and it is estimated to import around 55,000 tonnes in 2008/09.

Indian ELS production was 299,000 tonnes in 1984/85 and the country used to be a net exporter of those varieties. Low availability of quality seed, poor soil fertility, inadequate knowledge of correct farming methods for barbadense cotton and comparatively poor returns have turned India into a net importer. Even its stock-to-use ratio in 2008/09 is quite low at 17 percent, compared with other major ELS producing countries, like the US and Egypt where the ratio is as high as 98 percent and 94 percent, respectively. In fact, it is a pity that India, with such a long tradition of ELS consumption, a country which was the original abode of cotton, has such a low production. Frankly speaking, one might say that "The Emperor of ELS Cotton" struts around with only a few clothes on.

Premium Shift

Of late, textile players in India are increasingly going in for the production of high-value textiles, not only to beat the competition, but also to add to their margins. There is a growing focus on manufacturing superfine yarns, fabrics and garments, using ELS cotton. These items command a premium not only in European markets but also in the domestic market. With India's young,

- Adoption of better picking methods and thereby eliminating contamination. This is possible provided that the right signals are sent to farmers through a rigorous pricing system i.e. discounting contaminated seed cotton or giving premium for uncontaminated supplies.
- Last but not least, creation of an Indian ELS cotton brand, along the lines of Egyptian Giza and US PIMA.

To be clear, we are not at all saying that no such efforts are being made at present. The Coimbatore-based Southern India Mills Association (SICA) and its cotton development and Research Association (SIMA CD and RA) have been doing commendable work on this front. In fact, we are merely suggesting that these efforts need to be speeded up and their scope widened so that more states are covered.

Drastic Measures

If India does not heed the disquieting signs, the days are not far off when Indian ELS cotton may end up like the fabled emperor, with almost no clothes on. Therefore, the following steps should be taken on a war footing to resurrect ELS output, by increasing area and productivity:

- Develop suitable genotypes that match international standards in terms of fibre property and which are suitable for 80s, 100s and 120s count production. Present prominent varieties in India are Suvin and DCH-32.
- Impart technical know-how to cotton growers.
- Expand contract farming - otherwise, it is very difficult for growers to bear the high cost of cultivation. It is a well-established fact that ELS cotton has a longer growing period, is more prone to pests, and erodes soil fertility more than other varieties. In summary, there is a lot of risk involved.
- Compensate growers by paying adequate premiums. The dwindling area sown can be attributed to a lack of appropriate remuneration.
- Focus on improving yields, which at present average merely 350 kgs/hectare in India for ELS varieties, compared with the world average of 1100 kgs/hectare. In the last 5/6 years, upland yields in India have almost doubled, but so far those for ELS cotton have diminished.

The Outlook for World ELS Cotton (2009/10)

World ELS production is projected to decline for a second consecutive year to 427,000 tonnes in 2009/10. On the contrary, consumption is expected to increase to 376,000 tonnes, up 1.60 percent from the previous season. China and India's offtake is likely to go up by 5,000 tonnes each.

As a consequence, world end stock-to-use ratio is likely to be 50 percent, down from 58 percent in 2008/09.

So far as India is concerned, ELS production is expected to drop by 10 percent, whereas its consumption is likely to increase by about four percent. To fill this gap, India will import more than 65,000 tonnes of ELS cotton, an increase of 18 percent, not a small percentage by any stretch of imagination.

Game Changer

In the past, the supply and demand position was very much price sensitive. To put it simply, ELS cotton prices used to surge when a smaller acreage was planted and decrease in line with higher plantings. However, recently, a slight change is discernible in this cycle, because competing crops, particularly food crops, have started having a greater impact on the area devoted to ELS cotton. Since food prices throughout the world will fluctuate with some volatility, in view of weather

developments and the continued rise in demand. Therefore, prices for competing crops will continue to be more attractive. The area moved out of ELS cotton, will not return quickly. Thus, it is quite likely that the world area for ELS cotton will either remain constant or come down further in coming years.

Get Ready for a Price Push

The prospect of the smallest ever global ELS outturn and of rising demand, means prices could surge during the next six months and could stay firm for the next two to three years. The logic is also based on global economic prospects – some signs suggest that perhaps the worst may have already been seen. Once confidence starts building, it may push up demand for fine count cotton, which will of

course have a salutary impact on prices. Lets look for example at the price relationship between the Cotlook A Index (a benchmark for upland prices) and US PIMA values (a benchmark for ELS varieties), as this is one of the most frequently used tools both by buyers and sellers to forecast ELS cotton prices. Normally, the ratio between the two remains at around 1.80. However, in the coming months, it is likely to go over 2.2, on account of higher (expected) prices for PIMA cotton, the supply of which should tighten. But, whenever these benchmark values do not move in tandem, history tells us that the gap widens or contracts sooner or later and a more normal relationship is restored. So, the question arises will this be the case this time around? In our view, no. We are living in a different world and ELS cotton is on a different trajectory.

Moreover, the past is not always the perfect guide to the future, particularly when so many changes have taken place in the world of cotton and textiles. However, we wish to be proven wrong in our prognosis. Let us wait and see, because fundamentals are not the only force that drives prices, sentiment too plays a role. So, be prepared, as caution is the eldest child of wisdom.

There is no denying that India is going to face a big challenge in enhancing its ELS production. But then, adversity, they say can be looked upon as a crisis or an opportunity. It all depends on which direction one chooses to face. Historically, whenever there is a crisis, Indian cotton reinvents itself and becomes edgy. Let us hope the 'ELS Emperor' can find robes more befitting of his status sometime in the near future.

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Cotton's Natural Advantage



By Allen Terhaar, Executive Director,
Cotton Council International.

Despite a global economic slowdown and American Upland and Pima acreage declining, the market for textiles manufactured with long staple (LS) and extra-long staple (ELS) cotton should be poised to rebound following the financial crisis. The current economic climate has bred slowing global demand for cotton products overall and faltering consumer confidence in the state of the economy. Cotton also faces continued competition from synthetic fibers, its greatest long-term challenge. Building consumer demand is even more important when consumers retrench, and Cotton Council International (CCI) continues to work globally to build underlying consumer demand for products containing cotton, and U.S. cotton in particular.

While weakened consumer confidence has cut sharply into LS and ELS cotton product uptake at retail level during the current marketing year, the consumer overall remains favorably predisposed to natural fibers, particularly cotton. CCI and Cotton Incorporated's Global Lifestyle Monitor (GLM) research shows that consumers prefer natural fibers, such as cotton, for garments and home fashions. More than half of the consumers surveyed worldwide believe that better quality clothes are made from 100 percent natural fiber, such as cotton. Furthermore, consumers are willing to pay more for quality, with 64 percent of

consumers reporting they would be willing to pay more for clothes made of natural fibers than for synthetic fibers such as polyester. While the GLM research does not ask specifically about LS and ELS cotton products, "quality" has often become closely identified with properties provided by those fibers.

Attacking the need to increase general awareness of and preference for cotton versus synthetics, CCI has expanded cotton product consumer promotions in China and India. China and India have a combined population of around 2.5 billion, expanding middle and upper classes, rapidly growing economies and increasing disposable income. These factors combine to make these countries prime markets for consumer promotion of cotton, including luxury products made with LS and ELS cottons. China and India are normally among the leading export markets for U.S. Pima cotton. While not all of the resultant ELS cotton product remains within those countries, domestic markets are beginning to drive more of the final demand.

CCI and Cotton Incorporated's "COTTON-BEYOND YOUR IMAGINATION™" Program in China stimulates consumer preference for quality cotton goods. This public relations program has educated Chinese consumers on the benefits of cotton through road shows, fashion designer collaboration, online promotion and, most recently, a cotton kite flying event. In 2008, the program generated about 3 billion media impressions worth \$12.2 million in equivalent advertising value. After monitoring the success of CCI and Cotton Incorporated's promotions in China, the China Cotton Association (CCA) recently announced the launch of its own domestic promotion program and trademark "Cotton China." This CCA effort should benefit the cotton industry globally as Chinese consumers



A woman with blonde hair is lying on a wooden surface, surrounded by cotton plants. She is wearing a white t-shirt and has her head resting on her hand. The background is a clear blue sky. The cotton plants are in the foreground and background, creating a soft, natural setting.

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expand their total purchases of cotton products, including those of LS and ELS cottons. Meanwhile, Supima is looking to expand its promotion of U.S. Pima in China and is working closely with CCI on that initiative.

A similar cotton promotion campaign in India using the Seal of Cotton has amplified consumer awareness of the benefits of cotton versus synthetics. Recognition of the Seal of Cotton logo has doubled in India since 2006.

While generic promotion has been important in combating synthetics, adding CCI's registered COTTON USA trademark and, where appropriate, the Supima trademark, translates into an added focus on the middle and high end of the market and is more likely to involve LS and ELS cottons. CCI currently has more than 485 COTTON USA licensees while Supima has about 340 licensees. These hundreds of mills, brands and retailers take advantage of the COTTON USA and Supima licensing programs on apparel and home fashion brands because they believe the consumer continues to value quality. Billions of products are labeled with the COTTON USA and Supima logos. CCI's global research shows consumers are more willing to buy COTTON USA Mark-labeled products because they perceive those goods to be more durable, comfortable and stylish, as well as made by more reputable manufacturers – all indicators of quality cotton products.

CCI targets its public relations and fashion-forward advertising in major consumer markets to establish a strong market position for COTTON USA Mark-labeled products. Licensee partners are a key to giving visibility and credibility to these promotions. As

an example, by partnering with COTTON USA, UK retailer Marks & Spencer has used the program to increase sales of its U.S. cotton-rich home textiles, adding to demand for about 3,600 bales of U.S. Pima cotton. As another example, in Japan, press coverage of Cotton Day – which used cotton clothing design contests, fashion shows, celebrity awards and concerts to generate consumer enthusiasm for quality cotton products, many of them made with LS and ELS cottons – in May 2009 reached over 533 million consumers and generated \$9.5 million in equivalent advertising value. With sales of high-end goods depressed in developed economies owing to the financial crisis, partners are showing increased interest in joining such promotions to help stimulate demand.

Cotton is receiving even more global attention in 2009 since this year is the United Nations-proclaimed "International Year of Natural Fibers." Cotton is the largest natural fiber in the global fiber, textile and apparel economy, representing roughly 80 percent of all natural fibers consumed. CCI has made the IYNF the theme for various events around the world, including a major promotion in China where a series of "Natural World" marketing programs was developed to tell cotton's "natural story." COTTON USA partners for the Natural World events included such high-end brands as Dinosaur, Casablanca and K-Swiss.



Activities included fashion shows with COTTON USA licensees, quality cotton collections for all ages designed by celebrities, art exhibitions, print and interactive outdoor advertising, a consumer video competition and in-store promotions.

Cotton is a perennial consumer favorite and the strength of underlying consumer preference for quality cotton products will factor largely into the strength of the market's rebound for LS and ELS cottons. The Global Lifestyle Monitor multi-year research indicates that consumer preference for cotton remains strong through thick and thin times. Additionally, CCI's and Cotton Incorporated's successful demand-building activities in Asia, Europe, Latin America and the United States give confidence that the consumer can be influenced. The primary objective of U.S. cotton promotions will always be to build demand for cotton versus synthetics. One key to successfully countering inroads synthetics have made into cotton's product categories is to continually improve product quality and performance, and LS and ELS cottons have much to offer in that respect. Another key to demand for LS and ELS cottons for the long run is instilling consumer appreciation for the properties inherent in those fibers – a goal that CCI pursues day in and day out, in good times and in bad, and in developed and developing markets.

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